



DEPARTMENT OF STATE

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(With **SECRET** Attachment)

MEMORANDUM FOR MR. DAVID E. PICKFORD
DEPARTMENT OF THE TREASURY

SUBJECT: State Paper for SIG-IEP Meeting September 16

Attached is the State discussion paper for use at the
September 14 meeting of the SIG-IEP.
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- Signed - Al Adams 2/14
7pm

L. Paul Bremer, III
Executive Secretary

NSC review completed - unredacted segments may be declassified

Attachment:

As stated.

cc: OVP - Mr. Donald P. Gregg
NSC - Mr. Michael O. Wheeler
Agriculture - Mr. Raymond Lett
CEA - Mr. William Niskanen
CIA -
Commerce - Mrs. Helen Robbins
Defense - COL John Stanford
Justice - Mr. F. Henry Habicht
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
USTR - Mr. Dennis Whitfield

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State Dept. review completed

DISCUSSION PAPER FOR SEPTEMBER 16 MEETING OF SIG/IEP
ON SANCTIONS ISSUES

Introduction and Background

One of the key foreign policy objectives of the Reagan Administration has been to achieve a fundamental shift in the way in which our Allies view their relationship with the Soviet Union, altering a policy which in the broadest sense goes back to the mid-1950's. We have sought to convince our Allies that the emerging pattern of Soviet behavior in the 1970's, combining vast military programs with foreign activities posing increasing threats to vital Western interests, requires a fundamental rethinking of the Western approach of the past decade. This task is complicated by fact they -- and we -- supported detente in early '70's. We see it now as proven mistake; they do not.

The changes which we have sought relate primarily to the economic/commercial/technological aspects of the East-West relations. There was, and remains, a broad consensus on the need for continued strengthening of the Western military potential in the face of the growing Soviet military threat. In the economic area, however, our efforts have had to contend with deeply ingrained policies based on the assumption that, by itself, Western trade with the Soviet Union would lead to more moderate Soviet behavior.

Because the changes which we have sought are fundamental, the balance sheet at this point is ambiguous. We have been aided by a growing, but still insufficient, realization on the part of most of our Allies that some of the basic assumptions regarding the nature and objectives of the Soviet system on which "detente" policy was constructed were seriously flawed. Soviet behavior in Africa, the Middle East, Afghanistan, and, most importantly, in Poland provided a strong assist to our efforts. We have commitments from the Allies, which we must seek to implement, to strengthen COCOM and "observe prudence" in credit policies toward the USSR. However, these steps can be regarded as only the beginning of what will be a long and difficult process, and serious differences remain.

The Polish Question

Reflecting these continuing differences, we find ourselves facing a crucial choice over the Polish sanctions issue. Continuation of the sanctions dispute poses a serious threat for the solidarity and cohesion of the Western Alliance; yet an abrupt change in US policy could also be damaging because it would further European suspicions that we are not guided by a firm conceptual view of East-West relations, that we are inconsistent and vacillating. Against this background, we must

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consider whether, and if so on what basis, to seek further East-West economic restraints which might justify modifying the measures adopted on December 29 and June 18.

In considering this issue, we must look at the Polish situation and the measures which we have adopted both in terms of our basic objectives toward Poland and in the broader context of Western economic relations with the Soviet Union. In terms of Poland, it will clearly be unacceptable for the Administration to modify substantially the measures announced by the President on December 29 and June 18 without being able to demonstrate clearly that other actions, taken together with our Allies, had an equal or even greater impact on the Soviets. A return to business as usual, as happened following the Warsaw Pact intervention in Czechoslovakia, would doom our efforts to achieve a new Allied consensus on relations with the Soviet Union.

We must recognize, however, that the increasingly acrimonious trans-Atlantic dispute on the sanctions, particularly their retroactive and extraterritorial aspects, creates a new and formidable barrier to the achievement of our basic policy objectives. Given the attitudes developing in Europe in response to our sanctions measures, there is little likelihood that our Allies will be prepared to cooperate with us in developing more effective policies in the high technology and credits areas. The question is whether the continuation of the sanctions will not prove to be more damaging to US interests than a relaxation of the sanctions in exchange for the achievement of a broader consensus on dealing both with the Polish problem and the more basic question of economic relations with the Soviet Union.

The Pipeline

Because of its high visibility and obvious economic/political importance, the pipeline has come to dominate US-European discussions of the economic relationship between the West and the Soviet Union. This amounts, unfortunately, to reversing the order in which issues should logically be discussed, as we are dealing with the symptom rather than the cause of the problem which has developed between the United States and its Allies. We need, if possible, to move the discussion beyond the pipeline and on to more fundamental issues. The assessment that the pipeline will in any case be completed and that the delays, whether through our sanctions or Soviet incompetence, or both, will not be that great support the argument that trading our unilateral sanctions for an effective multilateral package makes sense.

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SECRET**-3-****European Attitudes**

Unfortunately, the sanctions decisions appear to have united our Allies as few other issues have in recent years, a dangerous situation from the US point of view for a number of reasons. Not only does it pose a threat to our efforts to develop a new consensus on dealing with the Soviet Union, it threatens to spill over into other important, but unrelated areas, notably defense/security issues, including INF deployment. It also establishes what could be a dangerous pattern for the future of common European resistance to and defiance of an American policy initiative. There are good indications that most of our Allies are as seriously concerned as we are over this turn of events and are prepared to make a concerted effort to overcome the division in Western ranks. This certainly applies to the British and Italians and most likely to the Germans. The French are the major question mark. Their immediate economic interests differ somewhat from than those of the other Allies, and their traditional resistance to a common Western policy in the economic area raises doubts whether they could agree to a compromise solution. We cannot, under present circumstances, expect our other European Allies to do our work for us with the French. The Germans, who are the only Ally with influence in Paris, are not in a position, due to the increasing weakness of the Schmidt-Genscher coalition, to be of much help. The French tend to ignore the British and look down upon the Italians. Although it will be primarily up to us to generate French support for a solution to the impasse, our efforts will be greatly facilitated if we can put forward a package which gains the support of the other key Allies.

Elements of a Package

In considering possible solutions, we must divide the problem into two components: (1) a shorter-term problem linked explicitly to the situation in Poland, and (2) a longer-term problem arising from our efforts to achieve a new Western consensus on trade with the Soviet Union. The papers which have been circulated previously lend themselves rather well to this approach. The oil and gas measures which might be adopted by the other Allies against a Soviet Union could be linked specifically to the situation in Poland. Achieving Allied agreement to such sanctions will be difficult under any circumstances; if they were open-ended, this objective would be out of reach. As a temporary measure tied to Poland, in exchange for moves on our part, it may have some prospects. The other three areas identified in the papers, restrictions on credits, strengthening of COCOM and commitments on energy security, (specifically no more Soviet pipelines), are

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long-term objectives which this Administration espoused prior to the declaration of martial law in Poland last December and will continue to press regardless of what happens in Poland. As a package, significant progress in these four areas could be reasonably presented as more than equivalent to the impact of the extraterritorial and retroactive aspects of the December 29 and June 18 measures and could, therefore, justify the removal of those aspects.

The initial discussions which the Secretary of State will have with his four Ministerial colleagues from France, Britain, the Federal Republic of Germany and Italy on the fringes of the UNGA, probably during the week of September 27, should give us a good basis for determining whether the atmosphere is ripe for a serious dialogue on these issues.

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